PUBLIC RELEASE DOCUMENT – HIGHLY CONFIDENTIAL INFORMATION REDACTED PURSUANT TO PROTECTIVE ORDER

UNITED STATES OF AMERICA
SURFACE TRANSPORTATION BOARD

Docket No. AB-290 (Sub-No. 254X) 217491
Norfolk Southern Railway Company –
Petition for Exemption – Discontinuance of Service –
Between Halls Ferry Junction, NC and Badin, NC in Stanly County, NC;

Docket No. AB-290 (Sub-No. 274X) 217492
Yadkin Railroad Company –
Petition for Exemption – Discontinuance of Service and Operating Rights Under Lease –
Between Halls Ferry, NC and Badin, NC in Stanly County, NC [Re-styled];

Docket No. AB-149 (Sub-No. 2X) 217493
Winston-Salem Southbound Railroad Company –
Petition for Exemption – Discontinuance of Service and Operating Rights Under Lease –
Between Whitney, NC and Badin, NC in Stanly County, NC [Re-styled]

PETITION TO REOPEN DECISION GRANTING DISCONTINUANCE EXEMPTION, REQUEST TO EXCEED PAGE LIMIT FOR GOOD CAUSE SHOWN, AND REQUEST FOR ORAL ARGUMENT

Pursuant to 49 C.F.R. § 1152.25(e), Alcoa Inc. ("Alcoa") hereby respectfully petitions the Surface Transportation Board ("STB" or "Board") to reopen the decision served August 11, 2006 in the above-captioned proceedings ("Decision"). In its Decision, the Board granted the request of Petitioners Norfolk Southern Railway Company ("NS"), Winston-Salem Southbound Railway Company, and Yadkin Railroad Company (collectively, "NS") to discontinue service on 11.11 miles of rail lines owned by and leased from Alcoa between Halls Ferry Junction, Whitney, and Badin in Stanly County, North Carolina ("the

Line"). Alcoa requests that the Board reopen and vacate the Decision or revoke the Board's grant of discontinuance authority to NS on the bases that new evidence and changed circumstances warrant such relief and that the Board committed material error in the Decision.

REQUEST TO EXCEED PAGE LIMIT FOR GOOD CAUSE SHOWN

Alcoa respectfully requests that the Board waive the 30-page limitation of 49 C.F.R. § 1152.25(e)(3). Alcoa herewith submits its Petition to Reopen on grounds of material error, changed circumstances, and new evidence, and herein substantiates testimony provided in Alcoa's June 5, 2006 Reply and Protest. Alcoa has made every effort to meet the 30-page limitation, but cannot provide the information necessary to adequately inform the Board of its new evidence, changed circumstances, the material errors committed in the Decision, and materials in support of these claims and its Reply and Protest without exceeding the page limitation. Obviously, Alcoa must be given the right, as a matter of due process, to address all of the changed circumstances, new evidence, and material errors in the Board's Decision, and to do so requires more than 30 pages, given the STB's stated rationales.

To minimize the length of its filing, as the Board's rules encourage, Alcoa is filing abridged versions of the workpapers upon which Mr. Tom O'Connor based his Unified Rail Costing System cost analysis to demonstrate material error in the Decision and to substantiate Mr. O'Connor's testimony included in Alcoa's Reply and Protest. The original workpapers exceed 220 pages and will

be submitted and served promptly by Alcoa if the Board so requests. Alcoa also submits a Supplemental Verified Statement of Mr. O'Connor and a Verified Statement of Ms. Susan Koessler, and accompanying Exhibits, in support of its Petition to Reopen, which are necessary for the Board's consideration of the arguments made therein.

Exclusion of these workpapers, the Supplemental Verified Statement and Verified Statement, and accompanying Exhibits from Alcoa's Petition to Reopen would deny Alcoa the opportunity to fully respond to the Board's Decision and the opportunity to present new evidence and inform the Board of changed circumstances. It is fundamental to Alcoa's right of due process that the Board provide Alcoa an adequate opportunity to be heard, including the ability to provide materials such as voluminous workpapers that the STB criticized Alcoa for not providing previously. *LaChance v. Erickson*, 522 U.S. 262, 266 (1998) ("The core of due process is the right to notice and a meaningful opportunity to be heard."); *see also Cleveland Bd. of Educ. v. Loudermill*, 470 U.S. 532, 542 (1985); *Memphis Light, Gas & Water Div. v. Craft*, 436 U.S. 1, 13 (1978); *Fuentes v. Shevin*, 407 U.S. 67, 80 (1972). Accordingly, for these reasons, Alcoa requests that the Board waive the page limitation of 49 C.F.R. § 1152.25(e)(3). No harm will be caused to any party if the Board were to do so. Petitioners filed a Petition of over 300 pages, so they could not complain about Alcoa's request to submit voluminous materials as well.

Fundamentally, the reason that each side has felt a need to submit voluminous materials is because Alcoa's Badin Works is an operating facility with

a continued need for rail service. Yet, that is the very reason Petitioners' request for an exemption from the more formal abandonment procedures should be denied.

Finally, the Board may be aided by conducting oral argument on this important matter to Alcoa, especially given Alcoa's ongoing need for rail service at Badin and the likelihood that this need will increase for at least the next 12-18 months, due to disassembly of one of the substantial "pot lines" there. Accordingly, pursuant to 49 C.F.R. § 1116.1, Alcoa respectfully requests oral argument on this Petition.

PETITION TO REOPEN

The Board's appellate procedures for abandonment and discontinuance proceedings, 49 C.F.R. § 1152.25(e), provide that the Board will grant a petition to reopen only upon a showing that the Board's action would be affected materially because of new evidence, changed circumstances, or material error. 49 C.F.R. § 1152.25(e)(2)(ii). As established herein, the Board's Decision to grant an exemption to discontinue service over the Line in these proceedings is affected materially because: (1) the decision to grant an exemption from formal discontinuance proceedings where (a) traffic continues to run over the Line, (b) the request for exemption is subject to protest, and (c) the proceeding involves significant evidentiary complexity, constitutes material error under the Board's prior case law (especially where, as here, the traffic is profitable using the STB's own Uniform Rail Costing System ("URCS") costing methodology for making

such a determination); (2) the Board's application of the total-cost abandonment costing model allowed NS to claim avoidable losses for costs that NS would not incur because it does not own the Line, resulting in material error with respect to NS's costs and the profitability of NS's operation over the Line; (3) NS and Alcoa have recently renegotiated the contracts setting rates for NS's service to and from Badin, which constitutes new evidence since Alcoa's filing of June 5, 2006 and which results in changed circumstances further demonstrating material error in the Board's Decision because it confirms what Alcoa informed the Board previously, *viz.*, that the contract rates for Badin traffic may be and are renegotiated frequently; and (4) there has been a recent change in circumstances at Alcoa's Badin Works, which will cause substantial additional traffic for a time due to disassembly of one of the "pot lines" that heretofore were used for smelting operations, and will result in increased traffic on the Line through at least the forecast year, as confirmed by the new evidence submitted herein.

Alcoa shows that, although the "record compiled in these proceedings is extensive," as the Board stated in its Decision, at 6, the disputed facts and issues regarding NS's cost analysis are of such complexity and significance to the outcome of this proceeding as to warrant discovery, which is only available in a formal abandonment and discontinuance proceeding.

The Board's Decision accepted with modification NS's cost analysis and found that Alcoa's URCS cost analysis was "not accompanied by any quantitative support or methodology" so the Board could neither verify nor find credible the

conclusions made regarding this analysis. *Id.* The Board did not "find credible Alcoa's contention that petitioners' analysis includes off-branch costs for services provided for other customers" and found "no merit to protestant's contention that petitioners' analysis fails to recognize the costs saved by two installations—an office building and a locomotive storage site." *Id.* Further, the Board found that Alcoa's $400,000 cost estimate for transloading service "is totally unsubstantiated." *Id.* Alcoa shows herein that the total-cost abandonment model relied on by the Board resulted in error when applied to NS's on- and off-branch costs and submits workpapers in demonstration of this error and as quantitative support of the URCS analysis submitted by Alcoa in its June 5, 2006 Reply and Protest. These workpapers, and a Supplemental Verified Statement from Mr. Tom O'Connor, and a Verified Statement from Ms. Susan Koessler, further address the Board's findings regarding NS's off-branch costs, NS's savings due to facilities provided by Alcoa, and potential transloading costs for traffic to and from Badin.

In its Decision, the Board rejected Alcoa's assertion that "claims of avoidable losses should be ignored because [NS] either agreed to the applicable rates or can change them without regulatory interference," determining that "Alcoa has not offered to renegotiate the contract rates." *Id.* The Board went on to determine that "there is no quantitative evidence to suggest that revenues could be raised to the extent necessary to profitably operate either the Line or the Whitney-Badin segment." *Id.* Demonstrating both changed circumstances and the Board's error in making these determinations, Alcoa herein submits new

evidence of renegotiated and renewed contract rates between Alcoa and NS for service to and from Badin, the negotiation of which gave NS an opportunity to raise its revenue to any level necessary to profitably operate over the Line.

In short, Alcoa's Badin Works generates traffic which is profitable for NS, as demonstrated by its renegotiation of the rates for that traffic, even without the substantial imminent increase in traffic due to the disassembly of one of the "pot lines" at Badin and the resulting significant increase in rail-dependent traffic from Badin. Badin has always needed rail service, but has a great need for it now, at least for the next several months. The Board should therefore reopen its Decision, postpone the effective date of discontinuance, and conduct a careful review of the situation to determine if it should require Petitioners to continue to provide rail service to Badin, including conducting oral argument to fully understand the facts and circumstances at Badin Works.

Argument

I. The Board Committed Material Error in Permitting an Exemption in Lieu of a More Formal Abandonment Proceeding Where Traffic Continues to Run over the Line, the Request for Exemption Is Subject to Protest, and the Proceeding Involves Significant Evidentiary Complexity.

There is no dispute that traffic continues to move on the Line. Alcoa acknowledges that the Board has previously granted petitions for exemption in limited cases where traffic is continuing. However, in the overwhelming majority of cases, the Board does not grant petitions for exemption where traffic continues to move on the line in question, because the carrier knows its petition will likely be protested, and that there are alleged facts or costs in dispute. *See, e.g., Wyoming and Colorado RR Co.—Abandonment Exemption—In Carbon County,*

WY, STB Docket No. AB-307X (served Nov. 9, 2004), at 4; *The Burlington Northern and Santa Fe Railway Co.—Abandonment of Chicago Area Trackage in Cook County, IL*, STB Docket No. AB-6 (Sub-No. 382X) (served Sept. 17, 1999), at 5-6. Unlike the referenced decisions, the Board's Decision here did not account for the fact that traffic continues to flow over the Line and is now projected to increase for at least the next 12-18 months, that NS knew or should have known that its Petition would be protested (and thus should have been filed under formal abandonment procedures), and that significant disputes existed over both facts and costs associated with rail traffic to and from Badin. The Board's failure to address these facts not only resulted in a significant departure from the overwhelming body of discontinuance and abandonment exemption decisions issued by the Board and its predecessor, the Interstate Commerce Commission, but thereby constituted material error. The facts as known clearly demonstrate that NS's request to discontinue service over the line should have been denied, or at most should have been considered in the context of a formal proceeding in which discovery would be permitted.

II. The Board Committed Material Error in Application of the Line-Abandonment Cost Model to These Facts; Here, the Proper Methodology to Determine the Profitability of the Traffic to and from Badin Is URCS.

The Board should not permit discontinuance or abandonment where operation of the Line remains profitable and the carrier has limited capital or opportunity costs associated with continued operation, as here. In its Reply to NS's Petition for Exemption, Alcoa demonstrated through the testimony of its

expert witness, Mr. Tom O'Connor, that operations over the Line are not only profitable for NS, but that NS actually realizes an average revenue-to-variable cost ("R/VC") ratio of 167 percent on Whitney-Badin traffic, using the Board's own URCS costing methodology (which of course the Board considers accurate for purposes of determining the profitability of rail traffic).[1] Such a level of profitability exceeds even the average R/VC ratio needed to cover all costs and make a railroad revenue-adequate.[2] In fact, the Board determined that NS earned its cost of capital in 2004, and thus was revenue-adequate in that year. *Railroad Revenue Adequacy*, STB Ex Parte No. 552 (Sub-No. 9) (served Nov. 9, 2005). Mr. O'Connor's testimony was discounted by the Board on the basis that it was not "accompanied by any quantitative support or methodology." Decision at 6. Alcoa, therefore, now puts before the Board those workpapers demonstrating that the testimony was substantiated.

The Board and its predecessor have mandated that URCS costing be utilized in all proceedings subject to Part 1152 of the Board's rules, 49 C.F.R. §§ 1152.1 et seq. *Abandonment Proceedings: Use of URCS in the Calculation of Off-Branch Costs*, 8 I.C.C.2d 203 (1991); *Uniform Rail Costing System*, 6 I.C.C.2d 359 (1990). Accordingly, Mr. O'Connor used the URCS quantitative cost analysis methodology to come to his conclusions. As Mr. O'Connor explained, use of the NS's approach to determining costs in this instance (as the

[1] Because of an agreement with the WSSB and CSX, NS is the only carrier now serving Badin.
[2] As the Board knows, estimates of the average R/VC ratio needed to make a railroad revenue-adequate have ranged from approximately 140-160 percent since such numbers became relevant with the passage of the Staggers Rail Act of 1980. More recently, as Mr. O'Connor shows (Exhibit 1, Supplemental Verified Statement of Tom O'Connor at 3), NS's average R/VC ratio for 2004 was 135 percent, and yet, as stated above, NS earned its cost of capital in 2004.

Board did) results in an inaccurate estimate of the costs incurred by NS unless those costs are substantially adjusted to account for the facts.

As the Board knows, and Mr. O'Connor has confirmed, the total-cost model applied under 49 C.F.R. § 1152.32 for on-branch costs allows a carrier to claim avoidable losses for capital expenditures and other costs not associated with the operation of the line at issue. Here, because NS does not own the Line, it incurs only operating costs, and not track-related capital costs for the Line. Nor does NS incur costs for its locomotive storage or office building at Badin, because both are provided by Alcoa free of charge.

The on-branch capital costs associated with the locomotive were reduced to zero by NS because the locomotive is fully depreciated and in fact is being used by NS well beyond its average life span.[3] NS calculates the on-branch capital-related locomotive costs as negative due to the long life of this equipment. The "credit" for this negative capital cost is not reflected in the on-branch costs submitted by NS and is presumably also not reflected in the off-branch costs. Alcoa notes that the URCS costs it submitted include average variable road property and equipment-related capital costs for both on- and off-branch.

NS also did not incur track-related maintenance costs that it should have incurred under the leases (but which were not incurred because of NS's admitted failure to perform required maintenance). URCS variable costs with appropriate modifications to reflect the facts therefore reflect NS's actual expenses for

[3] The NS line abandonment model states that "Net Investment for category 5 locomotives is equal to zero because the annual depreciation rate times the average age exceeds 100%." Locomotive ROI, Petition for Exemption at 241; Locomotive Depreciation, Petition for Exemption at 243.

operation over the Line, whereas the traditional total-cost abandonment model used in other abandonment and discontinuance proceedings does not accurately depict NS's costs here.

Beyond reflecting the fact that capital expenditures and return on capital should not be included where a carrier does not own the line at issue, here URCS costs as calculated by Mr. O'Connor are particularly relevant because URCS fairly and reasonably estimates maintenance costs. An URCS cost analysis demonstrates what costs NS should incur on the Line, without the unjustified inclusion of unperformed maintenance expenses as current and future expenses (*i.e.*, deferred maintenance applied to forecast year maintenance costs). In contrast, the total-cost analysis performed by NS and accepted by the Board erroneously included such costs which were not actually incurred by NS. Including costs not incurred by NS is obviously wrong, and the Board should not be a party to it.

When Alcoa filed substantive cost evidence through Mr. O'Connor's URCS analysis of NS's operation over the Line, it did not file workpapers because (1) the workpapers are very voluminous and merely substantiated the R/VC ratios Mr. O'Connor testified to based on the Board's own URCS methodology, which Alcoa presumed the Board would know were "substantiated," and (2) the rail carrier rates charged by carriers connecting with NS for traffic to and from the Badin Works are highly confidential and, therefore, a protective order would have been needed in order for Alcoa to submit this information (which seemed an unnecessary complication with only in-house

counsel representing NS). However, now that the Board claimed that Mr. O'Connor's R/VC ratios are "unsubstantiated," his workpapers are attached herein as Exhibits A and B. Exhibits A and B, and other documents submitted herein, contain highly confidential information and are subject to a protective order granted herein by the Board on September 1, 2006. Mr. O'Connor's workpapers quantify the URCS analysis that he prepared and relied on in his previous Verified Statement in this proceeding, and should be considered by the Board in determining whether to permit NS to discontinue service where the traffic in question is profitable.

As Mr. O'Connor's Supplemental Verified Statement (Exhibit 1) and Exhibits A and B show, Mr. O'Connor appropriately used Region 4 costs for Canadian National's ("CN's") costs, rather than CN-specific costs, when preparing the costs of the movement of freight from Canada to Badin. The reason is that, while the publicly reported data for CN show relatively low costs and indicate that CN is more profitable than most railroads, the CN-specific cost data submitted to the Board appears to show the opposite.[4] Even if the Board is

[4] The explanation for this anomaly is that, when CN purchased Illinois Central ("IC"), the Board included the acquisition premium paid by CN for IC to be reflected in the property accounts of Grand Trunk Corporation in place of the book values previously included there for IC. Exhibit 1 at 7-9. (Grand Trunk Western ("GTW"), IC, and Wisconsin Central ("WC"), are now reported as "Grand Trunk Corporation" ("GTC") for STB reporting purposes.) Following CN's purchase of IC, the Board permitted CN to claim a net investment value of $4,364,525,000 for GTW, compared to the previous year's combined value of $1,441,638,000 for GTW and IC (WC represents a negligible amount). *Id.* at 8. Accordingly, the acquisition premium paid represented 303% of the book value of GTW and IC until that time. *Id.* at 9.

Clearly, shippers had no role in choosing to pay such a premium, and therefore any regulatory relief shippers otherwise might have been entitled to should not have been affected by it. Every other regulator either prevents acquisition premiums from being paid, or prevents customers from being harmed by such payments (by limiting rates or by requiring cost reductions from the transaction to exceed the premiums paid). No other regulator permits the regulated entity to force customers to pay such premiums through higher rates or otherwise be adversely affected by the

to accept NS's cost analysis, off-branch costs presented by NS should be recalculated in light of this overstatement of CN-specific cost data. There may be unjustified acquisition premium-related costs included in NS's costs as well, given the Second Circuit's rationale in *Erie-Niagara*.

The Board's approach permitted NS's claimed "routine maintenance" costs for general track repair, ditching, and bridge repair, among other costs, to be considered as a cost at Badin, despite the fact that those costs have not been incurred for many years for the Line. These costs were nonetheless included as

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premiums paid, and neither should the Board. *E.g., Illinois Bell Telephone Co. v. FCC,* 911 F.2d 776, 784 (D.C. Cir.,1990); *Farmers Union Central Exchange v. FERC*, 734 F.2d 1486, 1527-28 (D.C. Cir. 1984), *cert denied*, 469 US 1034 (1984); *Farmers Union Cent. Exchange v. FERC*, 584 F.2d 408, 420 (D.C. Cir. 1978); *see FPC v. Hope Natural Gas Co.,* 320 U.S. 591, 601 (1944) ("*Hope*"):

> The heart of the matter is that rates cannot be made to depend upon "fair value" when the value of the going enterprise depends on earnings under whatever rates may be anticipated.

If it were otherwise, "all that need be done to raise rates and obtain greater income would be to have one company buy utility properties from another company at a higher price than original cost and in this very simple way . . . increase the cost of service to customers." *United Gas Pipe Line Co.*, 25 F.P.C. 26, 64 (1961), rev'd on other grounds sub nom., *Willmut Gas & Oil Co. v. FPC*, 299 F.2d 111 (D.C. Cir. 1962); *see also Northern Border Pipeline Co. v. FERC*, 129 F.3d 1315, 1318 (D.C. Cir. 1997); *Niagara Falls Power Co. v. FPC*, 137 F.2d 787, 793 (2d Cir. 1943).

In *Erie-Niagara Rail Steering Committee v. STB*, 247 F.3d 437 (2d Cir. 2001), the Second Circuit affirmed the Board's decision in Finance Docket No. 33388 approving the acquisition of Conrail by CSX and Norfolk Southern in which the Board permitted small acquisition premiums (*i.e.*, less than 10 percent) to be added to the investment amounts recorded for Conrail's assets by CSX and NS. But that decision was based in substantial part on the allegedly small amount of the premiums:

> [T]he STB performed an extensive analysis, using worst-case scenarios, and determined that even if no efficiencies were captured by this transaction, the thresholds for rate regulation would only rise 7.26% for NS and 4.9% for CSX. Moreover, the STB held that any effects of the acquisition premium on the STB's regulatory activities would be monitored for a period of five years as part of the STB's oversight process, and that it was retaining jurisdiction "to impose additional conditions if, and to the extent, [it] determine[s] that additional conditions are necessary to address unforseen harms caused by the transaction." *Id.* at 443; *Cf. Illinois Bell*, 911 F.2d at 784 (FCC allows inclusion of premium in rate base only for "very small" purchases).

That decision, therefore, cannot be relied on to permit adverse regulatory action affecting rail shippers due to an acquisition premium of the magnitude present in the IC acquisition at issue here.

part of the total avoidable losses for the forecast year, upon which the Board justified its Decision. Notwithstanding the Board's determination that its Decision "does not affect the substantive terms of the leases at issue," Decision at 5, NS plainly had a contractual duty to perform ordinary maintenance on the Line. NS performed little or no maintenance on the Line for many years, but was nonetheless permitted to claim substantial maintenance costs in the forecast and projected years due to use of the Board's general (but here inapplicable) total-cost model.

The Decision permitted NS to claim significant costs from maintenance NS has failed to perform. The Board restated NS's avoidable losses based on the Board's determination that NS appears to "have overstated normalized maintenance costs." Decision at 6. The Board noted that, for NS's forecast year, NS calculated that normalized maintenance costs would be $15,673 per mile for the 5.9-mile Halls Ferry Junction-Whitney segment and $22,169 per mile for the 5.2-mile Whitney-Badin segment. *Id.* at 6-7. The Board stated that "normalized maintenance costs usually do not exceed $5,000 per mile annually." *Id.* at 7. The Board subtracted claimed "program maintenance" items from normalized maintenance costs, but this adjustment did not fully account for the routine maintenance costs which NS should have incurred but did not, and thus were overstated in NS's and the Board's cost calculations.

By allowing NS to include deferred maintenance costs as forecast year avoidable losses, the Board's Decision had the unintentional effect of permitting NS to engage in the unreasonable practice of delaying contracted maintenance

and then claiming those delayed costs as justification for discontinuance of service. The Board, while recognizing the potential overstatement of NS's maintenance costs, thus erred in using a total cost model where NS's costs were limited by its leases of the Line, and by allowing NS to claim as avoidable losses in the forecast year costs for maintenance which it had consciously neglected. The Board should therefore reconsider its decision and apply the URCS cost analysis previously submitted by Alcoa to determine NS's losses or profits for its operations over the Line. URCS, after all, is used by the Board in every other context to determine if traffic is profitable.

III. Alcoa and NS Have Renegotiated Rates for Traffic to and from Badin, Resulting in Changed Circumstances, and Demonstrating Material Error in the Board's Conclusion That Alcoa Had Not Shown That It Was Willing to Renegotiate, Because in Fact Such Renegotiations Have Occurred.

In its Decision, the Board failed to recognize NS's ability to address any revenue issues for its service over the Line through its ability to raise rates. The Board found that "Alcoa has not offered to renegotiate the contract rates." Decision at 6. The Board's finding was erroneous. Alcoa stated that the contract rates it had with NS were subject to renegotiation at the end of the term of those very short contracts. The Board, therefore, should have found that Alcoa was willing to renegotiate contract rates with NS. Nothing in the record suggested that Alcoa had not offered to renegotiate these rates.

In any event, Alcoa and NS have continued to renegotiate and renew rates charged by NS to Alcoa for shipments to and from Alcoa's Badin Works facilities, both prior to and after the Board issued its Decision. Exhibit 2, Verified

Statement of Susan Koessler at ¶ 2. Alcoa thus submits this new evidence showing renegotiated and renewed rate contracts for NS's service to and from Badin as Exhibit D. [redacted] NS could have refused to offer service at any rate other than a rate that would cover its costs and provide it with a reasonable profit. NS chose instead to agree to the current rates, demonstrating that NS regards the rates as profitable (Supplemental Verified Statement of Tom O'Connor), just as Alcoa has consistently alleged.

It is the Board's duty to deny an exemption to permit a discontinuance based on the rail carrier's claimed losses where the carrier is in a position to expeditiously adjust its rates to ensure an adequate profit from the same traffic. The Board may only assume that the carrier would not enter into a contract for service unless it profited from that contract. The recent renegotiations of rate contracts by Alcoa and NS shows that the Board should find that NS's operations over the Line are profitable and that NS may adjust rates without difficulty to ensure profitability.

[5] NS's fuel surcharges in the renewed contracts may also have increased NS's profits for over the Line. Alcoa notes the Board's decision in *Rail Fuel Surcharges*, Ex Parte No. 661 (Aug. 3, 2006) recognized the potential for abuse of fuel surcharges as additional profit enhancing devices, and initiated a proceeding to address such potential abuses. NS has yet to inform the Board and its shippers whether it has overrecovered for its fuel costs. Evidence was submitted in Ex Parte No. 661 by Edison Electric Institute that NS had overrecovered for its fuel costs in 2004.

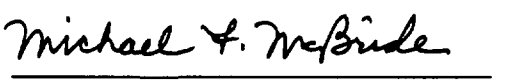
IV. There Are Other Changed Circumstances, in That Alcoa Now Foresees Substantial New Traffic Volume for the Forecast Year.

Alcoa recently decided to dismantle one of its idle "pot lines" at the Badin Works. Due to the physical size and tonnage of the pot liner, associated equipment, and other scrap steel and aluminum, Alcoa will require continued service of its rail line by NS to transport these materials from Badin. Exhibit 2 (explaining new circumstances demonstrating need for rail service for substantial new traffic from Badin for the next several months, at least, due to disassembly of one of the "pot lines" at Badin). If transloading were physically possible to move this additional traffic, Alcoa would incur substantial additional costs, based on transloading costs in excess of $400,000/year over current rail rates charged by NS, as previously provided in Alcoa's Reply and Protest and further discussed in Ms. Koessler's Verified Statement at ¶ 4. Alcoa estimates that the total material to be transported by rail car will be at least 8,500 tons, requiring approximately 130 additional cars to be moved over the Line in the next 12-18 months. *Id.* at ¶ 6. This change in circumstances, resulting in increased traffic over the Line for the forecast year, requires reconsideration of NS's claimed profits or losses for the forecast year.

Conclusion

Alcoa needs rail service at Badin, and Petitioners have not justified discontinuing that service. Alcoa has substantiated the claims made in its Protest and Reply filed June 5, 2006 and demonstrated, through that substantiation, that the Decision constitutes material error. Alcoa has further submitted new evidence showing changed circumstances that warrant relief from the Board's Decision granting the discontinuance of service exemption. Accordingly, for the reasons stated herein and in its Protest and Reply, Alcoa hereby petitions the Board to reopen and vacate its Decision in these proceedings on grounds of changed circumstances, material error and new evidence, so as to deny discontinuance authority to Petitioners.

Respectfully submitted,



Michael F. McBride
(michael.mcbride@llgm.com)
Ahren S. Tryon (atryon@llgm.com)
LeBoeuf, Lamb, Greene & MacRae LLP
1875 Connecticut Avenue, NW
Suite 1200
Washington, DC 20009-5728
Telephone: (202)986-8000
Facsimile: (202)986-8102

Attorneys for Alcoa Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have served, this 5th day of September, 2006, the foregoing pleading, by First-Class mail, postage prepaid, on James R. Paschall, Esq., Senior General Attorney, Norfolk Southern Railway Company, Three Commercial Place, Norfolk, VA 23510.

Michael F. McBride

EXHIBIT 1
SUPPLEMENTAL VERIFIED STATEMENT
OF TOM O'CONNOR

UNITED STATES OF AMERICA
SURFACE TRANSPORTATION BOARD

Docket No. AB-290 (Sub-No. 254X)
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Supplemental Verified Statement

of

Tom O'Connor
Vice President
Snavely King Majoros O'Connor & Lee, Inc.
1111 14th St NW
Washington DC

September 2, 2006

Public Version

My name is Tom O'Connor. I am Vice President of Snavely King Majoros O'Connor & Lee, Inc. ("Snavely King" or "SK"), an economic and management consulting company which focuses on transportation and utilities. Snavely King was retained by Alcoa Inc. ("Alcoa") to carry out analyses of the Petition for Exemption with respect to the 11.1 mile Halls Ferry Junction to Badin, NC lines at issue. Previously, Snavely King examined the claims of Petitioners Norfolk Southern Railway Company, et al. as to revenues, costs, volumes of rail shipments to and from the Badin Plant, and other issues concerning the Halls Ferry Junction to Badin rail lines. My qualifications were detailed in my Verified Statement (VS) filed on June 5, 2006.[1]

This supplemental verified statement presents work papers underlying our Revenue to Variable Cost (R/VC) analysis of traffic moving to and from Badin, NC. The summary work papers document the facts we cited in our testimony. We have made available to the Board detailed support for these work papers[2]. The summary and detailed work papers demonstrate the following:

- **The line is now carrying significant amounts of freight**
- **That freight is profitable to the railroads**

The summary work papers show that for inbound and outbound NS lanes, SK calculated an average R/VC of 167%. This is well above the NS's average R/VC of 135% for 2004.[3] The results are listed in Table I below.

The rate [redacted] negotiated since June 5, 2006, along with incorporation of Fuel Surcharges, [redacted] the R/VC significantly. The set of seven CN and NS lanes taking a rate [redacted] showed an average R/VC of [redacted]% with individual lane R/VC's ranging up to [redacted]%. When fuel surcharges are included this set of seven CN and NS lanes showed an average R/VC of [redacted]% with individual lane R/VC's ranging up to [redacted]%

[1] See Verified Statement of Tom O'Connor filed on June 5, 2006.
[2] See Exhibit A and B
[3] Source: STB decision in Ex Parte No. 646 (Sub-No. 1) served July 28 2006

Table I – NS Inbound and Outbound Lanes[4]

Ln.	Origin	Destination	Contract	Rate	Variable Cost	R/VC
1	CHARLESTON, SC	Badin, NC	NSRQ 63924	[redacted]	$847	[redacted]
2	BAIE COMEAU, QC	Badin, NC	CN 617975	[redacted]	$3,049	[redacted]
3	BAIE COMEAU, QC	Badin, NC	CN 617975	[redacted]	$3,049	[redacted]
4	BAIE COMEAU, QC	Badin, NC	CN 617975	[redacted]	$3,049	[redacted]
5	BAIE COMEAU, QC	Badin, NC	CN 617975	[redacted]	$3,472	[redacted]
6	BECANCOUR, QC	Badin, NC	CN 617975	[redacted]	$2,369	[redacted]
7	BECANCOUR, QC	Badin, NC	CN 617975	[redacted]	$2,369	[redacted]
8	BECANCOUR, QC	Badin, NC	CN 617975	[redacted]	$2,369	[redacted]
9	BECANCOUR, QC	Badin, NC	CN 617975	[redacted]	$2,759	[redacted]
10	DESCHAMBAULT, QC	Badin, NC	CN 617975	[redacted]	$2,464	[redacted]
11	DESCHAMBAULT, QC	Badin, NC	CN 617975	[redacted]	$2,664	[redacted]
12	DESCHAMBAULT, QC	Badin, NC	CN 617975	[redacted]	$2,664	[redacted]
13	DESCHAMBAULT, QC	Badin, NC	CN 617975	[redacted]	$3,048	[redacted]
14	DESCHAMBAULT, QC	Badin, NC	CPRS 129845	[redacted]	$2,333	[redacted]
15	KAISER, MS	Badin, NC	NSRQ 59575	[redacted]	$1,539	[redacted]
16	Badin, NC	ALCOA, TN	NSSQ 81798	[redacted]	$821	[redacted]
17	Badin, NC	ALCOA, TN	NSSQ 81798	[redacted]	$821	[redacted]
18	Badin, NC	JONES MILLS, AR	NSQ 81593	[redacted]	$1,919	[redacted]
19	Badin, NC	LANCASTER, PA	NSSQ 96040	[redacted]	$1,219	[redacted]
20	Badin, NC	RIVERDALE, IA	NSQ 81381 1 00	[redacted]	$2,216	[redacted]
21	Badin, NC	RIVERDALE, IA	NSQ 81381 1 00	[redacted]	$2,216	[redacted]
22	Badin, NC	RIVERDALE, IA	NSQ 81381 1 00	[redacted]	$2,216	[redacted]
23	Badin, NC	RIVERDALE, IA	NSQ 81381 1 00	[redacted]	$2,216	[redacted]
24	Badin, NC	WARRICK, IN	NSSQ96406	[redacted]	$1,448	[redacted]
	Average					**167%**

We note in passing that in our testimony we found that freight on the Badin CSX lanes realized an average R/VC of 128%. In checking the workpapers we found the average R/VC was slightly higher at 129.7%. The results are found in Table II below. The average R/VC on the CSX lanes is above CSX's overall system average R/VC of 124%.[5]

The minor increase we found in the CSX lane R/VC pales in comparison to the [redacted] in R/VC's[6] resulting from rate [redacted] proposed by the railroads and accepted by Alcoa since we filed our evidence on June 5, 2006.

[4] See Exhibit A
[5] STB decision in Ex Parte No.646 (Sub-No. 1) served July 28 2006
[6] See Exhibit C

Table II[7] – CSX Inbound and Outbound Lanes

Ln.	Origin	Destination	Contract 1/	Rate	Variable Cost	R/VC
1	BESSEMER, PA	Badin, NC	CSXT42553	[redacted]	$1,143	[redacted]
2	BESSEMER, PA	Badin, NC	CSXT42553	[redacted]	$1,143	[redacted]
3	POINT COMFORT, TX	Badin, NC	UP 3335	[redacted]	$2,789	[redacted]
4	MASSENA, NY	Badin, NC	CSXT 3343	[redacted]	$2,286	[redacted]
5	MASSENA, NY	Badin, NC	CSXT 3343	[redacted]	$2,286	[redacted]
6	MASSENA, NY	Badin, NC	CSXT 3343	[redacted]	$2,286	[redacted]
7	MT HOLLY, SC	Badin, NC	CSXT 3343	[redacted]	$816	[redacted]
8	MT HOLLY, SC	Badin, NC	CSXT 3343	[redacted]	$816	[redacted]
9	MT HOLLY, SC	Badin, NC	CSXT 3343	[redacted]	$816	[redacted]
10	MT HOLLY, SC	Badin, NC	CSXT 3343	[redacted]	$816	[redacted]
11	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	[redacted]	$2,189	[redacted]
12	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	[redacted]	$2,189	[redacted]
13	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	[redacted]	$2,189	[redacted]
14	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	[redacted]	$2,189	[redacted]
15	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	[redacted]	$2,189	[redacted]
16	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	[redacted]	$2,189	[redacted]
17	CRESAP, WV	Badin, NC	CSXT - 81754	[redacted]	$1,799	[redacted]
18	CRESAP, WV	Badin, NC	CSXT - 81754	[redacted]	$1,799	[redacted]
19	Badin, NC	MT HOLLY, SC	CSXT 29116	[redacted]	$534	[redacted]
20	Badin, NC	ALCOA, TN	CSXT 3343	[redacted]	$1,274	[redacted]
21	Badin, NC	ALCOA, TN	CSXT 3343	[redacted]	$1,274	[redacted]
22	Badin, NC	JONES MILLS, AR	CSXT 33120	[redacted]	$2,178	[redacted]
23	Badin, NC	JONES MILLS, AR	CSXT 33120	[redacted]	$2,178	[redacted]
24	Badin, NC	JONES MILLS, AR	CSXT 33120	[redacted]	$2,178	[redacted]
25	Badin, NC	JONES MILLS, AR	CSXT 33120	[redacted]	$2,178	[redacted]
26	Badin, NC	JONES MILLS, AR	CSXT 33120	[redacted]	$2,178	[redacted]
27	Badin, NC	RIVERDALE, IA	CSXT 54321	[redacted]	$2,470	[redacted]
28	Badin, NC	RIVERDALE, IA	CSXT 54321	[redacted]	$2,470	[redacted]
	Average					**129.66%**

Since filing the testimony on June 5, 2006 additional key facts have come to light. These facts are documented in the work papers and testimony accompanying this Supplemental Verified Statement. The findings are as follows:

- **The line will soon be carrying significantly increased volumes of freight**
- **That freight is moving at rates significantly more profitable to the railroads than the rates summarized in the R/VC analysis**

[7] See Exhibit B

The confidential rate agreements[8] show that the new rates, proposed by the railroads and accepted by Alcoa, are [redacted] than the rates reflected in the June 5 testimony. Alcoa's renewed contract for CN – NS lanes saw an average rate [redacted] of [redacted]% not including CN's fuel surcharge. These rate [redacted] produced an average R/VC of [redacted]% without inclusion of the fuel surcharge for the set of seven NS and CN lanes taking an increase. Individual lane R/VC's ranged [redacted]%. prior to applying a fuel surcharge.

The new NS contracts (except for NSSC 86178) include a 16.4% rate adjustment for fuel and are also subject to NS's new fuel surcharge tariff NS-8003.[9] In addition to the 16.4% fuel adjustment applied to the old rate, Alcoa experienced on average a [redacted]% rate [redacted] with individual lane rate [redacted] varying from [redacted]%. NSSC 86178 was subject to a [redacted]% [redacted] and subject to NS's Fuel Surcharge Tariff 8002[10]. As noted above, the average R/VC generated by these rate [redacted] is [redacted]% not including fuel surcharge. After applying a fuel surcharge these seven NS and CN lanes produced an average R/VC of [redacted]%, with individual lane R/VC's ranging[redacted]%. Table III below provides the detail.

Table III[11] – NS and CN Rate [redacted] and Fuel Surcharges

Origin	Destination	Contract	Rate	Rate With Fuel Surcharge	R/VC Excluding Fuel Surcharge	**R/VC Including Fuel Surcharge**
BECANCOUR, QC	Badin, NC	CN 617975	[redacted]	[redacted]	[redacted]	[redacted]
DESCHAMBAULT, QC	Badin, NC	CN 617975	[redacted]	[redacted]	[redacted]	[redacted]
Badin, NC	JONES MILLS, AR	NSQ 81593	[redacted]	[redacted]	[redacted]	[redacted]
Badin, NC	JONES MILLS, AR	NSQ 81593	[redacted]	[redacted]	[redacted]	[redacted]
Badin, NC	LANCASTER, PA	NSSQ 96040	[redacted]	[redacted]	[redacted]	[redacted]
Badin, NC	RIVERDALE, IA	NSQ81381 1 00	[redacted]	[redacted]	[redacted]	[redacted]
Badin, NC	RIVERDALE, IA	NSQ81381 1 00	[redacted]	[redacted]	[redacted]	[redacted]
Total			[redacted]	[redacted]	[redacted]	[redacted]

Alcoa had two contracts renewed by CSX, one contract received [redacted] and the other had a rate [redacted]. Both of these contracts are also subject to CSX's fuel surcharge Tariffs CSXT 8100[12].

[8] See Exhibit D

[9] Effective 7/01/2006, NS implemented a revised fuel surcharge program. The revised surcharge program applies to all local and joint line traffic moving on NS issued price authorities (public and private) with notes that reference the Tariff NS 8003. The surcharge is 3.3% for September 2006 based on the average WTI for July 2006.

[10] NS's September fuel surcharge is 20.4% under the prior fuel surcharge program, http://www.nscorp.com/nscorp/application?pageid=Doing%20Business&category=Doing%20Business&contentId=english/nscorp/doing_business/none2/fuel_price_updates.html

[11] See Exhibit C

[12] CSX's September fuel surcharge is 20.4% , http://shipcsx.com/public/ec.shipcsxpublic/Main?module_url=/ec.pricingpublic/Tariff

The following excerpt summarizes the defects we found in the NS model and evidence, which we presented in our June 5 testimony, indicating the basis and source of each of our findings, and which we further document in this Supplemental Verified Statement. (O'Connor VS at 6-7).

A. NS has Failed to conduct Ordinary Maintenance

One of the fundamental facts is the failure of NS to provide ordinary maintenance on this line, despite its obligation to do so. Another fundamental fact is that traffic, most of it remunerative, is still moving on the line, continuing a pattern that has persisted for decades.

B. The NS cost model is Seriously Flawed

We have examined the model submitted by NS as part of its petition and found a number of defects including:

- **Overstatement of the on branch car days**. The absence of demurrage revenue in the financial statements of the NS model conflicts with the apparently assumed parameter of 7.5 car days on branch. In fact interviews with Alcoa managers on site at Badin confirmed that minimizing demurrage costs was a standing goal. This was done by limiting cardays on branch to levels well below 7.5 days.
- **Overstatement of the crew time on branch**. The time ascribed to switching at the Badin plant overstates the time the NS locomotive was operating within the plant perimeter, as recorded in logs maintained by the plant security forces.
- **Inclusion of locomotive and crew time switching other traffic without recognition of corresponding revenues**. Interviews with Alcoa managers on site at Badin indicated that the locomotive did sufficient work elsewhere beyond Badin that the crew timed out on hours of service limits and the locomotive failed to return to its storage site at Badin. This reportedly occurs several times per month.
- **Overstatement of crew starts**. The number of crew starts included by NS (251) exceeds the number of carloads reported by NS for 2005 (217). This clearly generates an overstatement of the costs.
- **Overstatement of days per week the branch is served**. The NS model assumed service 5 days per week and NS discussed reducing the service to three days per week. The logs maintained by the plant security forces showed that during 2005 an NS crew was on site slightly more than two days per week. It may be feasible to operate with even less frequency of rail service.
- **Reloading of box cars may be understated**. The experience at Badin suggests that reloading is feasible for box cars on certain lanes. Neither the NS on branch model nor the unadjusted URCS model may adequately reflect these cost savings.

- **The inadequate track maintenance by NS likely impeded efficient operations**. Direct observation and interviews on branch with NS maintenance forces confirmed that NS was doing minimal maintenance and basically "just fighting fires." The failure to conduct ordinary or routine maintenance inevitably impedes efficiency.
- **The NS cost model fails completely to reflect two key on branch installations provided free to NS by Alcoa**. For many years Alcoa has provided a dedicated office building for use by NS. The NS personnel have long worked at that facility on duties ranging beyond the Badin works. For many years Alcoa has also provided a locomotive storage site for use by NS.

The STB analysis failed to reflect the cost reductions resulting from these defects in the NS model and the long term offsetting costs absorbed by Alcoa which were not recognized in the NS model.

Simply stated the line abandonment model is inapplicable to the situation at Badin.

- **The line abandonment model relies on total cost. The URCS model relies on variable cost. Variable cost is the appropriate metric for determining the profitability of ongoing traffic**
- **The line abandonment model relies on engineering estimates of cost. The URCS model relies on actual average variable cost experienced by NS and CSX.**
- **The line abandonment model either ignores or shifts the burden of the maintenance deferred by NS. The URCS model includes average variable track maintenance cost as incurred by NS and CSX.**

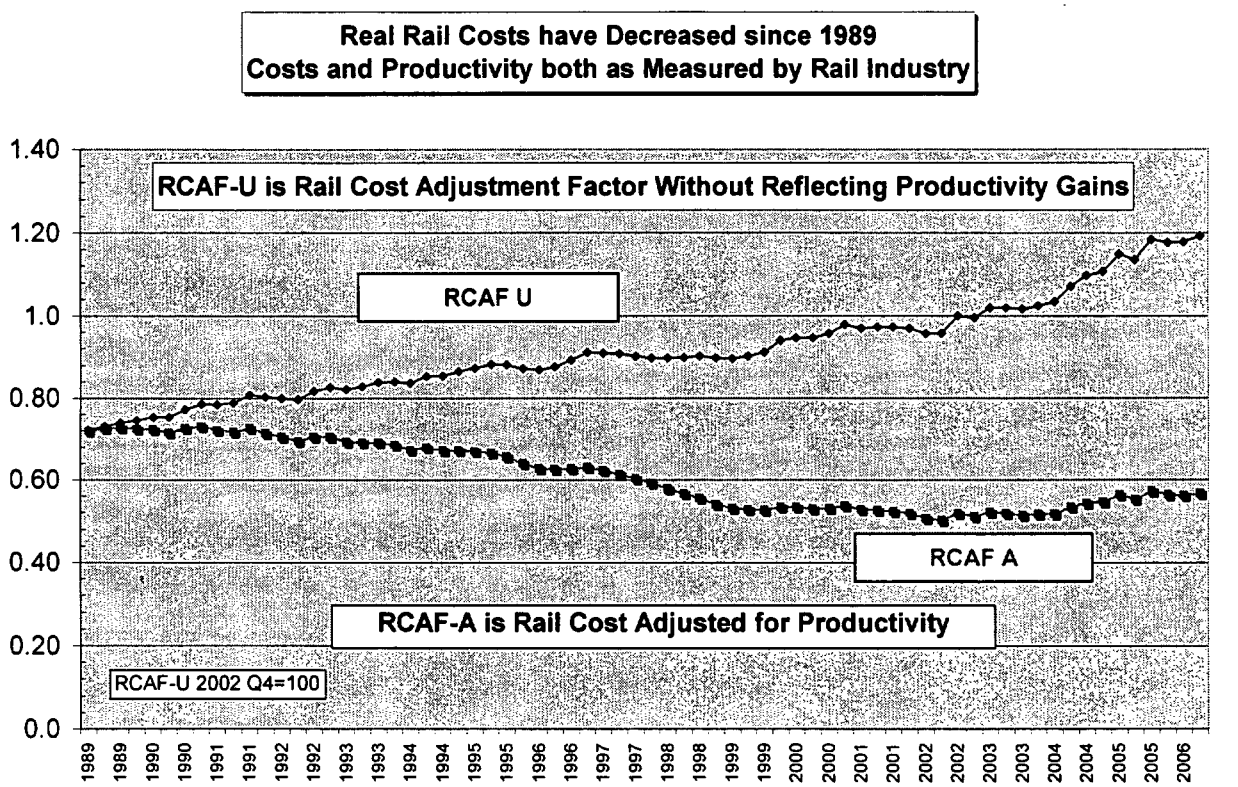
In conducting the cost analysis we considered the issue of cost indexing. As the following chart shows, the railroad industry has experienced steadily declining costs since 1989 as measured by the Rail Cost Adjustment Factor Adjusted for productivity (RCAF-A)[13]. The data presented on the chart source to the AAR, the ICC and the STB. We note in passing that RCAF includes fuel costs.

This prolonged period of rail industry cost reduction includes the effects of fuel costs. NS and all other major US and Canadian railroads have increased their rates on a monthly basis to recover fuel cost increases[14]. This sustained record of cost reduction and ongoing monthly recovery of fuel cost increases provides support for indexing the 2004

[13] The AAR submits its RCAF data to the STB for review on a quarterly basis. The STB issues its determination of the RCAF-A and RCAF- U also on a quarterly basis. The source of the data on the chart is the AAR, ICC and the STB.

[14] See American Chemistry Council and Snavely King testimony in Ex Parte 661 – Railroad Fuel Surcharges, May 11, 2006 for a discussion of the extent to which the railroads have over recovered fuel costs.

URCS costs downward. However we have refrained from that and present the URCS 2004 costs unadjusted.



As the summary and detailed work papers show, CN is one of the railroads which participated in shipments to the Alcoa plant at Badin, NC. As a long-standing practice Snavely King has replaced anomalous URCS unit costs with URCS regional unit costs. The primary incidence of this in recent years has been anomalous CN unit costs. In this instance we substituted URCS Region 4 unit costs[15] for CN unit costs for the reasons explained in this Verified Statement.

GTC is a combination of three U.S. railroads owned by the Canadian National Railway; the Illinois Central (IC), the Grand Trunk Western (GTW) and the Wisconsin Central (WC). In 2002, the CN consolidated its cost and performance reporting for these railroads into a single report, the GTC. The GTC data in the following table shows clearly the dramatic CN markup in GTC investment compared to predecessor IC and GTW investment. This unilateral CN markup caused a sharp increase in unit costs.

[15] URCS Region 4 is the average of NS and CSX unit costs.

Tax Adjusted Net Investment Value for IC, GTW, and GTC
(Dollars in Thousands)

		a	b	c=a+b	d	
LN	Year	GTW	IC	GTW + IC	GTC	Change in Book Value 1/
1	1999	$ 325,908	$ 1,113,006	$ 1,438,914		
2	2000	$ 431,817	$ 1,078,943	$ 1,510,760		
3	2001	$ 420,251	$ 1,021,387	$ 1,441,638		
4	2002				$ 4,364,525	303%
5	2003				$ 4,439,085	

Data Source: URCS Phase II Work Table B5 Line 372 Column 3

1/ Ln 4d / Ln3c
CN out of pocket cost for IC Acquisition 2/ : $1,821,000,000
2/ 4 STB at 131

This investment markup is incongruous and unprecedented. It certainly could not be explained by the inclusion of the Wisconsin Central in the GTC. The WC is a low-cost railroad with far less revenue or assets than either the IC or the GTW. The STB's senior staff has forthrightly acknowledged to Snavely King in another proceeding that this large increase in GTC 2002 net investment could not have been caused by the acquisition of the much smaller WC. The STB also recognized that this large increase in the book value generated a large increase in the GTC's variable cost and a large increase in the GTC's fixed cost. This tripling by CN of the investment recorded by the predecessor railroads is the source of the distortion in the CN's GTC URCS costs. In response to this serious and persistent distortion, SK substituted URCS Region 4 unit costs for the CN GTC URCS unit costs which reflected a tripling of the predecessor investment levels.

The resulting higher GTC unit costs would, in effect, put CN's US subsidiaries out of reach of the Surface Transportation Board's rate reasonableness regulatory procedures. Simply stated, use of the anomalous, and we believe, incorrect GTC data would prevent accurate analysis of rates either in negotiations or in litigation.

The Supreme Court and most regulatory agencies recognize that book values should not be written up for use in regulatory proceedings, for a variety of reasons. These include the fact that the duty of the regulator to protect the customer, and the public interest, would be abdicated by passing through to the customer large acquisition premiums, of the sort recorded by CN in its acquisition of the IC. For these reasons, we have substituted URCS Region 4 unit costs for CN unit costs, and believe that the STB is obliged to undertake such corrective actions also.

This principle is especially appropriate where, as here, the customer had no part in determining whether the premium should be paid, or how much of a premium should be paid. Even in the Conrail proceeding (Finance Docket No. 33388), where the STB did allow a small acquisition premium on each of CSX and NS to be included in those railroads' property accounts, the STB said it would continue oversight of the matter, and

the Second Circuit affirmed because the amounts were small and the STB said it would remain vigilant in overseeing the matter. Much larger premiums have now been claimed, as a result of subsequent corporate reorganizations, so the issue must be considered an open one for CSX and NS as a result of these facts.[16] That case is clearly not a precedent for acceptance of the 203 percent CN write up of GTC assets.

Summary

In response to the STB's statement in its Decision served August 11, 2006 that my testimony and evidence showing profitable traffic to and from Alcoa's Badin Works was not "substantiated" in the record, I produced the attached Exhibit A. [17] Exhibit A is a much reduced version of the output of my Firm's work to measure the revenue/variable cost (R/VC) ratios for that traffic, using the STB's URCS costing system. Due to space limitations on a petition to reopen, I prepared the attached briefer version of my complete workpapers, summarizing my findings but not including the hundreds of pages of detailed intermediate calculations we produced using the STB's URCS Phase III program. Of course, if the STB wants to receive all of my workpapers, including all of that detailed output we have prepared such and will be pleased to provide it to the STB and Petitioners.

In performing my URCS analysis, I used URCS Region IV costs for CN, rather than CN's GTC unit costs, because the GTC costs have been unilaterally written up by CN to reflect an acquisition premium recorded by CN for the purchase of Illinois Central. That acquisition premium was 203% of GTW and IC's combined book value as reflected in the Property Accounts of IC and GTW as reported to the STB. Therefore, the CN rail operations in the US show Property Accounts after the acquisition which are 303% of the recorded level before the acquisition. It is reasonable to expect that customers, who bear no part in paying or choosing to pay such premiums, would not be forced to bear higher costs or rates due to such unilateral actions by the regulated railroads. This reasonable principle is followed in every other regulated industry and should be applied in the railroad industry also.

It is appropriate to rely on URCS to evaluate the cost and profitability of ongoing traffic. Indeed URCS is the general purpose costing system adopted by the ICC and subsequently the STB. The STB uses URCS to determine the profitability of traffic in virtually every setting, including using URCS unit costs for car costs within the abandonment total-cost model. However, that abandonment total-cost model also includes capital costs and maintenance costs, which do not apply and should not be included here, since Alcoa owns the rail Lines in question, not Petitioners, and Petitioners admitted that they did no maintenance on these Lines for many years. My on-site

[16] No acquisition premium adjustment correction was made to the NS or CSX URCS unit costs. We used 2004 URCS costs and have not determined that the subsequent and larger write-up of Conrail acquisition costs is reflected in 2004 NS and CSX URCS unit costs.

[17] Exhibit A is the two one-page summaries of the NS and CSX lane R/VC results

observation of the Line confirmed the lack of maintenance as was documented in the photographs submitted as part of my Verified Statement.

It is a fact that NS and Alcoa have renegotiated the rates for Badin traffic, continuing the rates and in some [redacted], apart from and in addition to fuel surcharge revenues. This is strong evidence confirming my testimony that the traffic to and from Badin is profitable. NS is a for-profit company, which has been determined by the STB as having recently achieved the highest return on investment in the rail industry. It seems reasonable to conclude that NS would not agree to rates that are not compensatory. When coupled with the fact that there will now apparently be substantial new traffic in and out of Badin in the next several months, as discussed in the accompanying Verified Statement of Susan Koessler, the STB should conclude that rail service to Badin has been and will continue to be profitable, and it should reopen the proceeding and deny the Petition for Exemption, disallowing the request for discontinuance.

VERIFICATION

I, Tom O'Connor, verify under penalty of perjury that I have read the foregoing Supplemental Verified Statement of Tom O'Connor and know its contents, that the Supplemental Verified Statement was prepared by me or at my direction and that the same is true and correct to the best of my knowledge and belief. Further, I certify that I am qualified and authorized to file this Verified Statement.

Executed on September 2, 2006

Tom O'Connor

EXHIBIT A
URCS WORKPAPERS – NS

Norfolk Southern Inbound and Outbound Costing

								a	b	c		d	e	f=c+e	g=a/f
									Railroad - 1			Railroad - 2			
Ln.	Origin	Destination	Contract 1/	Route	STCC	Car Type	Volume	Rate	Railroad	Miles	URCS Cost	Railroad	Miles	URCS Cost	Total Variable Cost	Revenue to Variable Cost
						Cvd										
1	CHARLESTON, SC	Badin, NC	NSRQ 63924	NS	1051310	Hopper			NS	312	$847				$847	
2	BAIE COMEAU, QC	Badin, NC	CN 617975	CN(ROUPT)NS	33334110	Box			CN	455	$993	NS	1,017	$2,056	$3,049	
3	BAIE COMEAU, QC	Badin, NC	CN 617975	CN(ROUPT)NS	33334110	Box			CN	455	$993	NS	1,017	$2,056	$3,049	
4	BAIE COMEAU, QC	Badin, NC	CN 617975	CN(ROUPT)NS	33334110	Box			CN	455	$993	NS	1,017	$2,056	$3,049	
5	BAIE COMEAU, QC	Badin, NC	CN 617975	CN(BUFF)NS	33334110	Box			CN	902	$1,755	NS	831	$1,717	$3,472	
6	BECANCOUR, QC	Badin, NC	CN 617975	CN(ROUPT)NS	33334110	Box			CN	148	$451	NS	1,017	$1,919	$2,369	
7	BECANCOUR, QC	Badin, NC	CN 617975	CN(ROUPT)NS	33334110	Box			CN	148	$451	NS	1,017	$1,919	$2,369	
8	BECANCOUR, QC	Badin, NC	CN 617975	CN(ROUPT)NS	33334110	Box			CN	148	$451	NS	1,017	$1,919	$2,369	
9	BECANCOUR, QC	Badin, NC	CN 617975	CN(BUFF)NS	33334110	Box			CN	596	$1,156	NS	831	$1,603	$2,759	
10	DESCHAMBAULT, QC	Badin, NC	CN 617975	CN(ROUPT)NS	33334110	Box			CN	222	$563	NS	1,017	$1,901	$2,464	
11	DESCHAMBAULT, QC	Badin, NC	CN 617975	CN(ROUPT)NS	33334110	Box			CN	222	$598	NS	1,017	$2,066	$2,664	
12	DESCHAMBAULT, QC	Badin, NC	CN 617975	CN(ROUPT)NS	33334110	Box			CN	222	$598	NS	1,017	$2,066	$2,664	
13	DESCHAMBAULT, QC	Badin, NC	CN 617975	CN(BUFF)NS	33334110	Box			CN	646	$1,324	NS	831	$1,724	$3,048	
14	DESCHAMBAULT, QC	Badin, NC	CPRS 129845	CPRS(ALTN)NS	33334110	Box			CP	623	$1,010	NS	613	$1,323	$2,333	
						Cvd										
15	KAISER, MS	Badin, NC	NSRQ 59575	NS	2991315	Hopper			NS	751	$1,539				$1,539	
16	Badin, NC	ALCOA, TN	NSSQ 81798	NS	3334110	Box			NS	318	$821				$821	
17	Badin, NC	ALCOA, TN	NSSQ 81798	NS	3334110	Box			NS	318	$821				$821	
18	Badin, NC	JONES MILLS, AR	NSQ 81593	NS(MEMPH)UP	3334110	Box			NS	925	$1,400	UP	200	$519	$1,919	
19	Badin, NC	LANCASTER, PA	NSSQ 96040	NS	3334110	Box			NS	562	$1,219				$1,219	
20	Badin, NC	RIVERDALE, IA	NSQ 81381 1 00	NS(CHGO)BNSF	3334110	Box			NS	1,152	$1,757	BNSF	213	$459	$2,216	
21	Badin, NC	RIVERDALE, IA	NSQ 81381 1 00	NS(CHGO)BNSF	3334110	Box			NS	1,152	$1,757	BNSF	213	$459	$2,216	
22	Badin, NC	RIVERDALE, IA	NSQ 81381 1 00	NS(CHGO)BNSF	3334110	Box			NS	1,152	$1,757	BNSF	213	$459	$2,216	
23	Badin, NC	RIVERDALE, IA	NSQ 81381 1 00	NS(CHGO)BNSF	3334110	Box			NS	1,152	$1,757	BNSF	213	$459	$2,216	
24	Badin, NC	WARRICK, IN	NSSQ96406	NS	3334110	Box			NS	696	$1,448				$1,448	
26	**Total**														**$53,137**	**167%**

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Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OT	312	1.000	2.061

Freight Car: Covered Hopper
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 10 Metallic Ores
SHIPMENT TONS: 111
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	845.83	1.45	0.00	847.28

Cost per Hundred Weight 0.3817
Cost per Carload 847.28

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
REG4	OD	455	1.000	1.933
NS	RT	1,016	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 95
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
REG4	991.71	1.14	0.00	992.84
NS	2,053.29	2.54	0.00	2,055.83
Total Costs for Move	3,045.00	3.67	0.00	3,048.67

Cost per Hundred Weight 1.6046
Cost per Carload 3,048.67

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

REG4 This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
REG4	OD	902	1.000	1.933
NS	RT	831	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 95
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
REG4	1,752.99	1.91	0.00	1,754.91
NS	1,715.17	1.76	0.00	1,716.93
Total Costs for Move	3,468.16	3.67	0.00	3,471.83

Cost per Hundred Weight 1.8273
Cost per Carload 3,471.83

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

REG4 This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
REG4	OD	148	1.000	1.933
NS	RT	1,017	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 79
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
REG4	450.15	0.39	0.00	450.54
NS	1,915.91	2.66	0.00	1,918.57
Total Costs for Move	2,366.06	3.05	0.00	2,369.11

Cost per Hundred Weight 1.4994
Cost per Carload 2,369.11

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

REG4 This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
REG4	OD	596	1.000	1.933
NS	RT	831	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 79
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
REG4	1,154.63	1.27	0.00	1,155.90
NS	1,601.67	1.78	0.00	1,603.45
Total Costs for Move	2,756.30	3.05	0.00	2,759.35

Cost per Hundred Weight 1.7464
Cost per Carload 2,759.35

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

REG4 This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
REG4	OD	222	1.000	1.933
NS	RT	1,017	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 77
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
REG4	562.90	0.53	0.00	563.43
NS	1,898.58	2.44	0.00	1,901.02
Total Costs for Move	2,461.47	2.98	0.00	2,464.45

Cost per Hundred Weight 1.6003
Cost per Carload 2,464.45

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

REG4 This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
REG4	OD	222	1.000	1.933
NS	RT	1,017	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 96
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
REG4	597.48	0.67	0.00	598.14
NS	2,063.24	3.05	0.00	2,066.29
Total Costs for Move	2,660.72	3.71	0.00	2,664.43

Cost per Hundred Weight 1.3877
Cost per Carload 2,664.43

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

REG4 This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004
NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
REG4	OD	646	1.000	1.933
NS	RT	831	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 96
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
REG4	1,321.96	1.62	0.00	1,323.59
NS	1,722.26	2.09	0.00	1,724.35
Total Costs for Move	3,044.22	3.71	0.00	3,047.94

Cost per Hundred Weight 1.5875
Cost per Carload 3,047.94

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

REG4 This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
CP	OD	623	1.000	1.779
NS	RT	613	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 96
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
CP	1,008.30	1.87	0.00	1,010.17
NS	1,321.17	1.84	0.00	1,323.01
Total Costs for Move	2,329.48	3.71	0.00	2,333.19

Cost per Hundred Weight 1.2152
Cost per Carload 2,333.19

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

CP This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OT	751	1.000	2.061

Freight Car: Covered Hopper
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 29 Petroleum or Coal Prod.
SHIPMENT TONS: 92
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	1,537.15	1.12	0.00	1,538.27

Cost per Hundred Weight 0.8360
Cost per Carload 1,538.27

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OT	318	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 77
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	817.59	2.98	0.00	820.56

Cost per Hundred Weight 0.5328
Cost per Carload 820.56

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OD	725	1.000	2.012
UP	RT	200	1.000	1.785

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 75
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	1,397.32	2.27	0.00	1,399.59
UP	518.84	0.63	0.00	519.47
Total Costs for Move	1,916.16	2.90	0.00	1,919.06

Cost per Hundred Weight 1.2794
Cost per Carload 1,919.06

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

UP This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OT	562	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 75
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	1,216.08	2.90	0.00	1,218.98

Cost per Hundred Weight 0.8127
Cost per Carload 1,218.98

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OD	941	1.000	2.012
BNSF	RT	206	1.000	1.743

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 75
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	1,755.07	2.38	0.00	1,757.45
BNSF	458.29	0.52	0.00	458.82
Total Costs for Move	2,213.37	2.90	0.00	2,216.27

Cost per Hundred Weight 1.4775
Cost per Carload 2,216.27

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

BNSF This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/17/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OT	696	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 76
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	1,444.69	2.94	0.00	1,447.63

Cost per Hundred Weight 0.9524
Cost per Carload 1,447.63

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

EXHIBIT B
URCS WORKPAPERS – CSXT

CSXT Inbound and Outbound Costing

Ln.	Origin	Destination	Contract 1/	Route	STCC	Car Type	a Rate	b Railroad - 1 Railroad	Miles	c URCS Cost	d Railroad - 2 Railroad	Miles	e URCS Cost	f Railroad - 3 Railroad	Miles	g URCS Cost	h Railroad - 4 Railroad	Miles	i URCS Cost	J=c+e+g+i Total Variable Cost	K=a/J Revenue to Variable Cost
1	BESSEMER, PA	Badin, NC	CSXT42553	CSXT-Whitney NC-NS	2899868	Tank		CSXT	746	$1,057	NS	5	$86							$1,143	
2	BESSEMER, PA	Badin, NC	CSXT42553	CSXT-Whitney NC-NS	2899868	Tank		CSXT	746	$1,057	NS	5	$86							$1,143	
3	POINT COMFORT, TX	Badin, NC	UP 3335	PCN(LOLIT)UP(NEWOR)CSXT-Whitney-NS	2819634	Cvd Hopper		REG7	14	$207	UP	494	$823	CSXT	847	$1,571	NS	5	$188	$2,789	
4	MASSENA, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,125	$2,087	NS	5	$199							$2,286	
5	MASSENA, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,125	$2,087	NS	5	$199							$2,286	
6	MASSENA, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,125	$2,087	NS	5	$199							$2,286	
7	MT HOLLY, SC	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	239	$618	NS	5	$198							$816	
8	MT HOLLY, SC	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	239	$618	NS	5	$198							$816	
9	MT HOLLY, SC	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	239	$618	NS	5	$198							$816	
10	MT HOLLY, SC	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	239	$618	NS	5	$198							$816	
11	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,137	$1,991	NS	5	$198							$2,189	
12	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,137	$1,991	NS	5	$198							$2,189	
13	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,137	$1,991	NS	5	$198							$2,189	
14	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,137	$1,991	NS	5	$198							$2,189	
15	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,137	$1,991	NS	5	$198							$2,189	
16	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,137	$1,991	NS	5	$198							$2,189	
17	CRESAP, WV	Badin, NC	CSXT - 81754	CSXT-Whitney NC-NS	2991315	Cvd Hopper		CSXT	804	$1,611	NS	5	$188							$1,799	
18	CRESAP, WV	Badin, NC	CSXT - 81754	CSXT-Whitney NC-NS	2991315	Cvd Hopper		CSXT	804	$1,611	NS	5	$188							$1,799	
19	Badin, NC	MT HOLLY, SC	CSXT 29116	NS-Whitney NC-CSXT	2899868	Tank		NS	5	$87	CSXT	239	$447							$534	
20	Badin, NC	ALCOA, TN	CSXT 3343	NS-Whitney NC-CSXT	3334110	Box		NS	5	$198	CSXT	536	$1,076							$1,274	
21	Badin, NC	ALCOA, TN	CSXT 3343	NS-Whitney NC-CSXT	3334110	Box		NS	5	$198	CSXT	536	$1,076							$1,274	
22	Badin, NC	JONES MILLS, AR	CSXT 33120	NS-Whitney NC-CSXT(MEMPH)UP	3334110	Box		NS	5	$198	CSXT	872	$1,461	UP	200	$519				$2,178	
23	Badin, NC	JONES MILLS, AR	CSXT 33120	NS-Whitney NC-CSXT(MEMPH)UP	3334110	Box		NS	5	$198	CSXT	872	$1,461	UP	200	$519				$2,178	
24	Badin, NC	JONES MILLS, AR	CSXT 33120	NS-Whitney NC-CSXT(MEMPH)UP	3334110	Box		NS	5	$198	CSXT	872	$1,461	UP	200	$519				$2,178	
25	Badin, NC	JONES MILLS, AR	CSXT 33120	NS-Whitney NC-CSXT(MEMPH)UP	3334110	Box		NS	5	$198	CSXT	872	$1,461	UP	200	$519				$2,178	
26	Badin, NC	JONES MILLS, AR	CSXT 33120	NS-Whitney NC-CSXT(MEMPH)UP	3334110	Box		NS	5	$198	CSXT	872	$1,461	UP	200	$519				$2,178	
27	Badin, NC	RIVERDALE, IA	CSXT 54321	NS-Whitney NC-CSXT(CHGO)BNSF	3334110	Box		NS	5	$198	CSXT	1,089	$1,803	BNSF	213	$470				$2,470	
28	Badin, NC	RIVERDALE, IA	CSXT 54321	NS-Whitney NC-CSXT(CHGO)BNSF	3334110	Box		NS	5	$198	CSXT	1,089	$1,803	BNSF	213	$470				$2,470	
29	Total																			$50,838	129.68%

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a Provided by Alcoa

Movement Cost Program 8/23/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
CSXT	OD	746	1.000	1.751
NS	RT	5	1.000	1.004

Freight Car: Tank Car > 22,000 Gallons
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 28 Chemicals
SHIPMENT TONS: 84
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
CSXT	1,052.41	4.28	0.00	1,056.68
NS	86.46	0.03	0.00	86.49
Total Costs for Move	1,138.87	4.31	0.00	1,143.18

Cost per Hundred Weight 0.6805
Cost per Carload 1,143.18

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

CSXT This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/23/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
REG7	OD	14	1.000	1.960
UP	RD	494	1.000	2.006
CSXT	RD	847	1.000	1.971
NS	RT	5	1.000	2.061

Freight Car: Covered Hopper
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 28 Chemicals
SHIPMENT TONS: 99
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
REG7	207.12	0.05	0.00	207.18
UP	821.32	1.84	0.00	823.16
CSXT	1,568.02	3.16	0.00	1,571.18
NS	187.89	0.02	0.00	187.91
Total Costs for Move	2,784.36	5.08	0.00	2,789.44

Cost per Hundred Weight 1.4088
Cost per Carload 2,789.44

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

REG7 This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

UP This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

CSXT This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/23/2006

Exhibit_B
Public Version
Page 4 of 11

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
CSXT	OD	1,124	1.000	1.866
NS	RT	5	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 88
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
CSXT	2,083.60	3.39	0.00	2,086.98
NS	198.54	0.02	0.00	198.56
Total Costs for Move	2,282.14	3.40	0.00	2,285.54

Cost per Hundred Weight 1.2986
Cost per Carload 2,285.54

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

CSXT This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/23/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
CSXT	OD	239	1.000	1.866
NS	RT	5	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 78
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
CSXT	615.09	2.95	0.00	618.04
NS	197.94	0.07	0.00	198.00
Total Costs for Move	813.03	3.01	0.00	816.04

Cost per Hundred Weight 0.5231
Cost per Carload 816.04

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

CSXT This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
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NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/23/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
CSXT	OD	1,137	1.000	1.866
NS	RT	5	1.000	2.012

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 75
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
CSXT	1,988.26	2.89	0.00	1,991.15
NS	197.76	0.01	0.00	197.77
Total Costs for Move	2,186.02	2.90	0.00	2,188.91

Cost per Hundred Weight 1.4593
Cost per Carload 2,188.91

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

CSXT This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/23/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
CSXT	OD	804	1.000	1.971
NS	RT	5	1.000	2.061

Freight Car: Covered Hopper
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 29 Petroleum or Coal Prod.
SHIPMENT TONS: 99
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
CSXT	1,609.49	1.20	0.00	1,610.68
NS	187.89	0.01	0.00	187.90
Total Costs for Move	1,797.38	1.20	0.00	1,798.59

Cost per Hundred Weight 0.9084
Cost per Carload 1,798.59

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

CSXT This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/23/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OD	5	1.000	1.004
CSXT	RT	239	1.000	1.751

Freight Car: Tank Car > 22,000 Gallons
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 28 Chemicals
SHIPMENT TONS: 92
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	86.95	0.10	0.00	87.05
CSXT	442.71	4.62	0.00	447.32
Total Costs for Move	529.66	4.72	0.00	534.37

Cost per Hundred Weight 0.2904
Cost per Carload 534.37

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

CSXT This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/23/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OD	5	1.000	2.012
CSXT	RT	536	1.000	1.866

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 77
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	197.88	0.03	0.00	197.91
CSXT	1,072.76	2.95	0.00	1,075.71
Total Costs for Move	1,270.64	2.98	0.00	1,273.61

Cost per Hundred Weight 0.8270
Cost per Carload 1,273.61

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

CSXT This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

Movement Cost Program 8/23/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OD	5	1.000	2.012
CSXT	RD	872	1.000	1.866
UP	RT	200	1.000	1.785

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 75
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	197.76	0.01	0.00	197.77
CSXT	1,458.16	2.35	0.00	1,460.51
UP	518.84	0.54	0.00	519.38
Total Costs for Move	2,174.76	2.90	0.00	2,177.66

Cost per Hundred Weight 1.4518
Cost per Carload 2,177.66

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment: Surface Transportation Board Unit Cost Railroad File Released URCS Data 2004

CSXT This railroad data set created on 9/27/2005 Source master file header comment: Surface Transportation Board Unit Cost Railroad File Released URCS Data 2004

UP This railroad data set created on 9/27/2005 Source master file header comment: Surface Transportation Board Unit Cost Railroad File Released URCS Data 2004

Movement Cost Program 8/23/2006

Railroad	Shipment Type	Distance	Circuity	LE/Ratio
NS	OD	5	1.000	2.012
CSXT	RD	1,089	1.000	1.866
BNSF	RT	213	1.000	1.743

Freight Car: Box, Equip. Gen. Service
Number of Cars: 1
Car Ownership: Railroad
COMMODITY: 33 Metal Products
SHIPMENT TONS: 76
Type of Move: Single Car Move

Variable Cost of Service Summary

Railroad	Variable Cost	Loss & Damage	Ex Parte Adjustment	Total Variable Cost
NS	197.82	0.01	0.00	197.83
CSXT	1,800.39	2.45	0.00	1,802.84
BNSF	469.37	0.48	0.00	469.85
Total Costs for Move	2,467.57	2.94	0.00	2,470.51

Cost per Hundred Weight 1.6253
Cost per Carload 2,470.51

Input Railroad Data File: 2004 Railroad Unit Cost.XML
----------File Documentation Statements----------

NS This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

CSXT This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

BNSF This railroad data set created on 9/27/2005 Source master file header comment:
Surface Transportation Board Unit Cost Railroad File
Released URCS Data 2004

EXHIBIT C
ANALYSIS OF R/VC RATIOS

Norfolk Southern Inbound and Outbound Rate Increases

Ln.	Minimum Lbs.	Origin	Destination	Contract 1/	Route	STCC	a Rate	b Railroad - 1 Railroad	b Railroad - 1 Miles	c Railroad - 1 URCS Cost	d Railroad - 2 Railroad	d Railroad - 2 Miles	e Railroad - 2 URCS Cost	f Fuel Surcharge	g=a*(f+1) Rate With Fuel Surcharge	h=c+e Total Variable Cost	i=a/h Revenue to Variable Cost Excluding Fuel Surcharge	j=g/h Revenue to Variable Cost Including Fuel Surcharge
1		BECANCOUR, QC	Badin, NC	CN 617975	CN(BUFF)NS	33334110	[redacted]	CN	596	$1,156	NS	831	$1,603	13.75%	[redacted]	[redacted]	[redacted]	[redacted]
2		DESCHAMBAULT, QC	Badin, NC	CN 617975	CN(ROUPT)NS	33334110		CN	222	$563	NS	1,017	$1,901	13.75%				
3	150,000	Badin, NC	JONES MILLS, AR	NSQ 81593	NS(MEMPH)UP	3334110		NS	925	$1,400	UP	200	$519	3.3%				
4	180,000	Badin, NC	JONES MILLS, AR	NSQ 81593	NS(MEMPH)UP	3334110		NS	925	$1,400	UP	200	$519	3.3%				
5		Badin, NC	LANCASTER, PA	NSSQ 96040	NS	3334110		NS	562	$1,219				3.3%				
6	150,000	Badin, NC	RIVERDALE, IA	NSQ 81381 1 0(	NS(CHGO)BNSF	3334110		NS	1,152	$1,757	BNSF	213	$459	3.3%				
7	180,000	Badin, NC	RIVERDALE, IA	NSQ 81381 1 0(	NS(CHGO)BNSF	3334110		NS	1,152	$1,757	BNSF	213	$459	3.3%				
7		**Total**																

1/ See Exhibit D
a See Exhibit D
b See Exhibit A
c See Exhibit A
d See Exhibit A
e See Exhibit A
f NS Fuel Surcharge Tariff 8003 and CN Fuel Surcharge Tariff 7401

CSXT Inbound and Outbound Costing

								a	b	c	d	e	f=c+e	g=a/f
									Railroad - 1		Railroad - 2			
Ln.	Minimum Lbs.	Origin	Destination	Contract 1/	Route	STCC	Car Type	Rate	Railroad	Miles	URCS Cost	Railroad	Miles	URCS Cost	Total Variable Cost	Revenue to Variable Cost
1	150000	MT HOLLY, SC	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box	[redacted]	CSXT	239	$618	NS	5	$198	[redacted]	[redacted]
2	180000	MT HOLLY, SC	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	239	$618	NS	5	$198		
3	150000	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,137	$1,991	NS	5	$198		
4	180000	ROOSEVELTOWN, NY	Badin, NC	CSXT 3343	CSXT-Whitney NC-NS	33334110	Box		CSXT	1,137	$1,991	NS	5	$198		
		Total														

1/ See Exhibit D
a See Exhibit D
b See Exhibit B
c See Exhibit B
d See Exhibit B
e See Exhibit B

EXHIBIT 2
VERIFIED STATEMENT OF SUSAN KOESSLER

VERIFIED STATEMENT OF SUSAN M. KOESSLER

1. My name is Susan M. Koessler. I am employed by Alcoa Inc. ("Alcoa") as the Manager, Rail Sourcing-Pricing. I have managed rail negotiations for Alcoa since 1990. As part of my job duties, I negotiate the terms of service and rates charged by railroad companies to Alcoa for shipments to and from its plants. I have recently renegotiated the rates charged by Norfolk Southern Railway Company ("NS") for shipments to and from Alcoa's Badin Works.

2. The rates to and from Badin Works are subject to short-term rate contracts that are renegotiated at or around the end of the existing contract term. For the Badin Works, Alcoa has seven rate contracts with NS and other railroads. Six of those contracts were renegotiated or renewed since June 5, 2006. Attached as Exhibit D are contracts and documents which evidence the renegotiated rates, along with a letter from Sarah Brooks Corey at NS (Exhibit E) stating that NS will terminate the leases for NS's operation, and discontinue service, over the Halls Ferry Junction-Badin lines owned by Alcoa and leased and operated by NS ("the Line"), effective October 16, 2006.

3. [redacted]

4. In its June 5, 2006 Reply and Protest, Alcoa stated that it would incur approximately $400,000 in additional costs for rail shipments for the Badin Works if it were to move traffic previously hauled by NS over the Line via transloader. This approximation was based on NS's statement that, during its Base Year, NS carried 112 cars of Alcoa traffic over the entire Line and hauled 173 CSXT carloads of Alcoa traffic over the Whitney-Badin segment of the Line (NS Petition at 16) and informal quotations obtained by Alcoa for transloading services. Alcoa later obtained a formal, written quotation for transloading services dated June 23, 2006, which is attached as Exhibit F. As Exhibit F states, Alcoa would be charged $500 per rail car and an additional $0.0072 per pound for these transloading services. Based on NS's Base Year figure of 285 rail cars, Alcoa would incur a cost of $142,500 for the "per car" portion of its transloading expenses. Assuming an historical average of 150,000 pounds per rail car transloaded (*see* Exhibit D), Alcoa would be charged an additional $307,800 for the transloading of 285 cars, for a total additional cost of $450,300. This compares favorably to Alcoa's estimate of $400,000 in its June 5, 2006 Reply and Protest.

5. Given Alcoa's need for rail service, and the fact that it is far more economical than a motor carrier, nothing prevented NS from raising its base rates to ensure the profitability of its operations over the Line. NS could have refused to offer service at any rate other than a rate that would cover its costs and provide it with a reasonable profit. NS chose to agree to the current rates, obviously demonstrating that NS regards the rates as profitable, just as Alcoa has consistently alleged in this proceeding.

6. In addition to rate renegotiation, other circumstances have changed since June 5, 2006 that affect Alcoa's need for rail service at Badin Works. For instance, Alcoa has

recently made the decision to dismantle one of its idle but very substantial "pot lines" at the Badin Works. Due to the physical size and tonnage of the pot liner, associated equipment, and other scrap steel and aluminum, Alcoa will require continued rail service to transport these materials from Badin. Alcoa estimates that the total material to be transported by rail car will be about 8,500 tons, which would require approximately 130 additional cars to be moved over the Line in the next 12-18 months. This material cannot be transported by truck without great additional expense to Alcoa, given the volume of material to be transported. It is much easier and economical to move such large shipments by railroad. This change in circumstances will result in increased rail traffic over the Line for the forecast year and obviously requires reconsideration of NS's claimed profits or losses for the forecast year.

7. Alcoa needs rail service at Badin, it is profitable for NS, and Petitioners have not justified discontinuing that service. I implore the STB to require Petitioners to continue to provide rail service at Badin, at least as long as it is profitable, which I am certain it is, for the reasons I have stated.

VERIFICATION

I, Susan M. Koessler, verify under penalty of perjury that I am the Manager, Rail Sourcing-Pricing, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief. Further, I certify that I am qualified and authorized to file this Verified Statement.

Executed on September 1, 2006

Susan M. Koessler

Susan M. Koessler

EXHIBIT D
CONTRACT RATES

REDACTED

EXHIBIT E
LETTER FROM SARAH COREY
REGARDING DISCONTINUANCE OF SERVICE

Sarah Brooks Corey
Director Strategic Planning
(757) 629 - 2686

August 17, 2006

Via fax or e-mail; copy by U. S. mail

Ms. Susan Koessler
Manager, Rail and Barge Transportation
Alcoa, Inc.
1100 Riverview Tower
900 S. Gay Street
Knoxville, TN 37902

Re: Termination of lease of Halls Ferry Junction, NC –Whitney, NC and Whitney, NC- Badin, NC Railroad Lines and Discontinuance of Rail Service at Badin, NC

Dear Ms. Koessler:

My letter of August 12, 2004 to Mr. Robert G. Uffelman at Alcoa, Inc. concerning termination of the March 28, 1916 leases of the Halls Ferry Jct-Whitney-Badin rail line serving Alcoa's facility at Badin, NC followed April 12, 2004 and May 26, 2004 notice letters from Norfolk Southern Railway Company's (NSR) Paul Greene. In those letters, the railroad lessees gave sixty days notice of the termination of the lease of the Halls Ferry Jct.-Whitney NC railroad line from Alcoa (Tallassee Power Company) to Yadkin Railroad Company (Yadkin), now a wholly-owned subsidiary of NSR and of the lease of the Whitney-Badin, NC railroad line from Alcoa (Tallassee) jointly to Yadkin and NSR's fifty-percent owned affiliate, Winston-Salem Southbound Railway Company (WSSB). Mr. Greene's second letter extended the termination date. My letter extended the termination date to March 31, 2005. My e-mail of March 28, 2005 further extended the termination date until May 15, 2005.

Due to the low volume of traffic on the line in recent years and in an effort to work with Alcoa while it studied the options for using or closing the Badin facility, NSR nonetheless continued to provide rail service for Alcoa over the entire line to and from Badin from May 15, 2005 to date. Finally, we could no longer wait for Alcoa to decide on the future of the Badin Works and to stop the losses caused by the continued, indefinite maintenance and operation of what had become a costly, light density line. NSR, Yadkin and WSSB thus filed petitions for exemption to discontinue service over the line with the Surface Transportation Board (STB). The STB granted the exemptions, subject to an environmental consultation condition, effective on September 10, 2006.

Without waiving our right to assert that the leases were terminated as of May 15, 2005, subject only to STB authorization or exemption of discontinuance of service, Yadkin and WSSB, and NSR as owner and operator of Yadkin, hereby give Alcoa further notice of the cancellation of the subject leases and discontinuance of rail service at Badin, NC, effective October 16, 2006, sixty days from the date of this letter, since it will be received by Alcoa via fax or e-mail on the date sent. We trust that the additional thirty-six days of operation after the effective date of the STB's decision will give Alcoa sufficient time to make alternative arrangements for any further transportation it may need for commodities or products moving to and from the Badin Works.

The lease terminations and STB discontinuance exemption also should be taken to include the termination of any storage, parking or other track agreements between any of the railroads and Alcoa concerning any tracks at Badin, NC and the switching agreement of January 27, 1967, as supplemented, between Alcoa and, at various times, Yadkin, WSSB and NSR. This letter also shall constitute a sixty day notice of termination of those agreements, to the extent that may be necessary.

Despite our differences over the termination of the leases and discontinuance of service over the Halls Ferry Jct-Badin line, we value Alcoa's business and will look forward to providing rail transportation service to Alcoa to and from other locations on our system. If you have any questions, please call me on 757-629-2686.

Sincerely,

Sarah B. Corey

cy: Mr. Ed Hamorsky, Director Logistics and Transportation Alcoa
Mr. John Booth, CSX Transportation
Mr. Buddy Usrey, Winston Salem Southbound
Mr. A. D. Bryson, NS Transportation
Mr. J. R. Eaton, NS Marketing
Mr. D. C. McKibben, NS Engineering
Mr. M. M. Owens, NS Joint Facilities
Mr. J. R. Paschall, NS Law

EXHIBIT F
QUOTATION FOR TRANSLOADING SERVICES

Logistics, LLC

P.O. Box 1491
Havertown, PA 19083
Tel. 610-449-3845
Fax 610-789-8724
www.adslogistics.com

June 23, 2006

Susan Koessler
Manager - Rail Rate Analysis & pricing
Alcoa Materials Management
Riverview Tower
Suite 1100 900 South Gay Street
Knoxville, TN 37902

RE: Rate Quotation for transloading and local delivery of aluminum 'T' bar/ingot arriving in boxcar.
Tonnages: 1600 NT/Month
Start Date: T.B.D.
Program Duration: T.B.D.

Dear Susan:

In response to your Request for Quotation regarding the above referenced, we are pleased to provide the following quotation for handling and local delivery of aluminum 'T' bar/ingot. Please note that our rail station on NSRR is Pineville, NC.

Warehouse Handling by ADS Logistics, Roll & Hold division:

R&H Location:	Charlotte, NC
Handling IN:	$500 per rail car
Handling OUT:	Included
Receiving Mode of Transport:	Boxcar
Shipping Mode of Transport:	Flatbed Truck

Truck Transportation by ADS Logistics, Area Transportation division:

Origin:	Roll & Hold Charlotte, NC.
Destination:	Badin, NC
Rate:	$.72 /cwt
Weight Minimum:	40,000

(Truck rates are exclusive of any applicable fuel surcharges in effect at the time of shipment.)

All transportation rates are subject to fuel surcharges unless otherwise specified (copy attached). Rates are stated in dollars (USD). Rate quotation is effective for 30 days from date of this letter. All orders are subject to contract and credit approval, and payment terms are Net 30 days.

ADS Logistics, LLC and its operating divisions (Area Transportation, Roll & Hold, Integrated Solutions, and Western Intermodal), during the execution of logistics services including storage, provides such services as a warehouseman and all property accepted is subject to the standard contract terms and conditions for merchandise warehousemen, approved and promulgated by the American Warehouseman's

Association, October 1968; revised and promulgated by the International Warehouse Logistics Association, January 1998. ADS Logistics, LLC claims a lien on all goods in its warehouses for all lawful charges for storage and preservation of the goods; also for all lawful claims for money advanced, interest, insurance, transportation, labor, weighing, coopering and other charges and expenses in relation to such goods or for any amounts owing in relation to other goods whether or not such goods remain in the warehouses. The property covered by this document has not been insured by this company for the benefit of the depositor against fire or any other casualty.

If you have any questions regarding this proposal or wish to discuss service matters, please feel free to contact me. For your guidance, Faye Walker is your ADS operations contact and can be reached at (Tel) 704-588-6998, (Fax) 704-588-9767, or (e-mail) fwalker@adslogistics.com. By copy of this letter to various individuals within ADS, I am providing for their use, your (Tel) 865-594-4818, (Fax) 865-594-4820, and (e-mail) susan.koessler@alcoa.com.

Thank you for the opportunity to submit this proposal. We appreciate your interest in our services and look forward to working with your company.

Sincerely,

Richard Doyle
Director of Marketing & Sales
rdoyle@adslogistics.com

/enc.: Fuel Surcharge Tariff
ADS Special Service Price List

cc.: F. Walker
R. Cyphert
D. Berry
M. Brinkley
T. Kannengieser
T. Eatinger
G. Gustafson

RULES AND GOVERNING PROVISIONS

ITEM	EXPLANATION
1005	APPLICATION OF FUEL COST ADJUSTMENT Extraordinary fluctuations in fuel costs will be recovered by the carrier in the form of a fuel surcharge. The base line cost of fuel will be pegged at $1.40 per gallon. The U.S. Department of Energy (DOE) Fuel Index as published on the Energy Information Administration Diesel Fuel and Motor Gasoline Hot Line updated each Monday at 4:00 p.m. Eastern Standard Time (202) 586-6966 or their website located at http://tonto.eia.doe.gov/oog/info/wohdp/diesel.asp will be the official fuel index to recognize fluctuations over and above the baseline peg price. No fuel surcharges will be applied until the DOE index exceeds $1.40 per gallon. The fuel surcharge will be calculated and adjusted each Monday and become effective the following Tuesday and remain in effect until the next calculation/adjustment date. The fuel surcharge percentage adjustment will be applied to the base revenue of each load. The following percentage matrix indicates the percentage adjustment based on cost per gallon. The fuel surcharge will be paid directly to the purchaser of the fuel.

Average cost Of Fuel/Gallon		Applicable Percentage of Surcharge
From	To	
$1.340	$1.429	5%
$1.430	$1.519	6%
$1.520	$1.609	7%
$1.610	$1.699	8%
$1.700	$1.789	9%
$1.790	$1.879	10%
$1.880	$1.969	11%
$1.970	$2.059	12%
$2.060	$2.149	13%
$2.150	$2.239	14%
$2.240	$2.329	15%
$2.330	$2.419	16%
$2.420	$2.509	17%
$2.510	$2.599	18%
$2.600	$2.689	19%
$2.690	$2.779	20%
$2.780	$2.869	21%
$2.870	$2.959	22%
$2.960	$3.049	23%
$3.050	$3.139	24%
$3.140	$3.229	25%
$3.230	$3.319	26%
$3.320	$3.409	27%
$3.410	$3.499	28%
$3.500	$3.589	29%
$3.590	$3.679	30%

For explanation of abbreviations and reference marks, see page 4.